

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 29, 2008 Through April 28, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT – 2008 TAXES

For The Period
April 29, 2008 Through April 28, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2008 Taxes for the Fulton County Sheriff for the period April 29, 2008 through April 28, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,571,855 for the districts for 2008 taxes, retaining commissions of \$99,627 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,500,294 to the districts for 2008 taxes. Taxes of \$130 are due to the districts from the Sheriff and refunds of \$30,913 are due to the Sheriff from the taxing districts.

Report Comments:

2008-1 Controls Over Computer Information Systems Should Have Been Stronger

2008-2 Internal Controls Over Financial Reporting Should Be Strengthened

2008-3 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With
KRS 134.310

Deposits:

The Sheriff's deposits as of November 6, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$110,210

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2008 Taxes for the period April 29, 2008 through April 28, 2009. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid for the period April 29, 2008 through April 28, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2008-1 Controls Over Computer Information Systems Should Have Been Stronger

2008-2 Internal Controls Over Financial Reporting Should Be Strengthened

2008-3 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With
KRS 134.310

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

March 11, 2010

FULTON COUNTY
ROBERT HOPPERT, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 29, 2008 Through April 28, 2009

| | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|----------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| <u>Charges</u> | | | | |
| Real Estate | \$ 252,512 | \$ 398,704 | \$ 1,118,558 | \$ 231,628 |
| Tangible Personal Property | 40,606 | 73,307 | 194,140 | 148,364 |
| Water Acres | | 17,296 | | |
| Fire Protection | 453 | | | |
| Increases Through Exonerations | 68 | 1,903 | 504 | 63 |
| Franchise Taxes | 23,926 | 38,046 | 101,862 | |
| Bank Franchises | 17,357 | | | |
| Penalties | 1,797 | 2,869 | 7,893 | 1,852 |
| Adjusted to Sheriff's Receipt | (39) | (60) | (161) | (51) |
| Gross Chargeable to Sheriff | 336,680 | 532,065 | 1,422,796 | 381,856 |
| <u>Credits</u> | | | | |
| Exonerations | 2,262 | 3,572 | 10,725 | 2,075 |
| Discounts | 4,436 | 6,881 | 18,418 | 5,587 |
| Delinquents: | | | | |
| Real Estate | 5,413 | 8,874 | 26,586 | 4,964 |
| Tangible Personal Property | 1 | 1 | 3 | 3 |
| Franchises: | | | | |
| Delinquents | 2 | 3 | 8 | |
| Unbilled | 1,621 | 107 | | |
| Total Credits | 13,735 | 19,438 | 55,740 | 12,629 |
| Taxes Collected | 322,945 | 512,627 | 1,367,056 | 369,227 |
| Less: Commissions * | 14,013 | 21,787 | 47,847 | 15,980 |
| Taxes Due | 308,932 | 490,840 | 1,319,209 | 353,247 |
| Taxes Paid | 313,199 | 496,066 | 1,337,979 | 353,050 |
| Refunds (Current and Prior Year) | 348 | 579 | 1,469 | 322 |
| (Refunds Due Sheriff) | | | | |
| as of Completion of Audit | \$ (4,615) | \$ (5,805) | \$ (20,239) | \$ (125) |

**

*, **, And *** See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 ROBERT HOPPERT, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period April 29, 2008 Through April 28, 2009
 (Continued)

* Commissions:

10% on 10,000
 3.5% on 1,367,058
 4.25% on 1,194,799

** Special Taxing Districts:

| | |
|---------------------------|------------|
| Library District | \$ (2,527) |
| Health District | (1,209) |
| Extension District | (2,114) |
| Soil Conservation | (85) |
| Mental Health | 126 |
| Fulton County Levee Board | <u>4</u> |

| | |
|---|--------------------------|
| Due Districts or (Refunds Due Sheriff) | <u><u>\$ (5,805)</u></u> |
|---|--------------------------|

*** School Districts

| | |
|---------------------------|----------------|
| Fulton County School | \$ (18,222) |
| Fulton Independent School | <u>(2,017)</u> |

| | |
|-----------------------|---------------------------|
| (Refunds Due Sheriff) | <u><u>\$ (20,239)</u></u> |
|-----------------------|---------------------------|

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 28, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Fulton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 28, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 28, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 6, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$110,210

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 2, 2008 through April 28, 2009.

Note 4. Interest Income

The Fulton County Sheriff earned \$1,661 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of April 28, 2009, the Sheriff owed \$364 in interest to the school districts and \$429 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$13,821 of 10% add-on fees allowed by KRS 134.430(3). This amount should be used to operate the Sheriff's office. As of April 28, 2009, the Sheriff owed \$13,821 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Fulton County Sheriff collected \$1,180 of advertising costs and \$1,525 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff should distribute the advertising costs to the county as required by statute, and the advertising fees should be used to operate the Sheriff's office. As of April 28, 2009, the Sheriff owed \$1,180 in advertising costs to the county and \$1,525 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit unrefundable duplicate payments and unexplained receipts in an interest-bearing account. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff collected \$6 of unexplained receipts for 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
Honorable Fulton, Fulton County Sheriff
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Fulton County Sheriff's Settlement - 2008 Taxes for the period April 29, 2008 through April 28, 2009, and have issued our report thereon dated March 11, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

2008-1 Controls Over Computer Information Systems Should Have Been Stronger
2008-2 Internal Controls Over Financial Reporting Should Be Strengthened



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2008-2 to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2008 Taxes for the period April 29, 2008 through April 28, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

2008-3 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With
KRS 134.310

The Fulton County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 11, 2010

COMMENTS AND RECOMMENDATIONS

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 29, 2008 Through April 28, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2008-1 Controls Over Computer Information Systems Should Have Been Stronger

During the course of our audit, auditors noted that substantial weaknesses in controls and security over the tax collection computer system existed during the audit period. Two computers are setup in the Sheriff's front office for use of tax collections, with a cash drawer between the two computers. At the time 2008 taxes were being collected, these same computers were also used by the public doing tax and title search information in the county, which allowed the public to be behind the front counter with immediate access to the cash drawer with little or no staff supervision. The computers were to be logged off by staff immediately after collecting taxes from a taxpayer, and any member of the public using the computers for research were to log on as guests, which would limit their access to information. However, if an office staff member were to forget to log off as the user of the computer, any member of the public using that computer would have had access to all operations of the computer system, including payment and/or exoneration entries. Auditors further noted that user name and passwords were not adequate to safeguard the system, and that programming weaknesses in the computer software provided potential for material errors. These included inconsistent reports to support collections and disbursements, as well as an ability to easily mark bills paid when no money was actually collected without knowledge of doing so. Since the close of 2008 tax collections, the Sheriff's office has added a separate computer terminal with limited access for public use, preventing the public from being behind the front counter near the cash drawer and from potentially manipulating tax data. The Sheriff's office has also implemented new tax collections software in order to avoid past programming errors.

Sheriff's Response: None.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2008-2 Internal Controls Over Financial Reporting Should Be Strengthened

The Sheriff's office lacks adequate segregation of duties in the following areas:

- The Sheriff's deputy responsible for preparing the daily checkout sheet also collects money and prepares the daily deposit.
- The Sheriff's bookkeeper, who is responsible for preparing monthly tax reports and tax distributions, also collects money.

While the Sheriff has implemented compensating controls to offset the lack of segregation of duties, failures in the operation of those compensating controls have been noted. As a result, we recommend the following additional controls be implemented to strengthen the Sheriff's internal controls over tax collections and distributions.

- The Sheriff or his designee should review daily deposits prepared by another staff member and agree them to daily collections reports, reconciling any discrepancies timely.
- The Sheriff or his designee should review franchise tax collection and disbursement reports for accuracy and completeness at the end of each month.

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 29, 2008 Through April 28, 2009
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS (CONTINUED):

2008-2 Internal Controls Over Financial Reporting Should Be Strengthened (Continued)

- The Sheriff should perform the monthly bank reconciliation, reconciling bank receipts and disbursements to the monthly tax reports and tax distributions.
- The Sheriff should agree cancelled checks for refunds to the refunds disclosed on the monthly reports.

Sheriff's Response: We are complying to the best of our abilities with the amount of personnel we have.

STATE LAWS AND REGULATIONS:

2008-3 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

Prior to necessary audit adjustments, the Sheriff's 2008 tax settlement was materially misstated due to deficiencies in internal controls and computer tax software, and through the exclusion of franchise tax collections and all tax distributions. KRS 134.310 (5) states, "In counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office...
- (b) A complete statement of all expenditures of his office..."

We recommend the Sheriff comply with KRS 134.310 by including franchise tax collections and tax distributions for the same period as regular property taxes on his annual tax settlement that is presented to and approved by fiscal court. Further, the Sheriff or an appointed designee should perform a thorough review of the annual tax settlement. This review should include tracing amounts on the settlement to the source documentation, recalculating these amounts, and also checking the mathematical accuracy of the settlement. Also, this review should include comparing the amount of taxes collected on the settlement to the taxes collected on the monthly tax reports. Such a review will lessen the chance of a material misstatement of the Sheriff's annual tax settlement and assure its compliance with KRS 134.310.

Sheriff's Response: None.

